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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 7077
INFO RUEHAC/AMEMBASSY ASUNCION 0727
RUEHBO/AMEMBASSY BOGOTA 7124
RUEHBR/AMEMBASSY BRASILIA 5824
RUEHBU/AMEMBASSY BUENOS AIRES 1519
RUEHLP/AMEMBASSY LA PAZ NOV LIMA 0663
RUEHMN/AMEMBASSY MONTEVIDEO 0884
RUEHQT/AMEMBASSY QUITO 2495
RUEHSG/AMEMBASSY SANTIAGO 3827
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY
RUCPDOG/DEPT OF COMMERCE

UNCLAS CARACAS 003434

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TREASURY FOR KLINGENSMITH AND NGRANT
COMMERCE FOR 4431/MAC/WH/MCAMERON
NSC FOR DTOMLINSON
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [VE](#)

SUBJECT: PARALLEL RATE SPIKES AS DEMAND FOR DOLLARS GROWS

REF: A. CARACAS 3375

[1](#)B. CARACAS 1215

[1](#)C. BOWEN/WELLS E-MAILS 11/15

[1](#)1. (U) SUMMARY: The recently-issued Bonos del Sur (see reftel A) were being re-sold in Venezuela at a rate in excess of 3400Bs/USD this week as Venezuelans are increasingly demanding dollars. The demand is driven by continued excess liquidity, problems with the Commission for the Administration of Foreign Exchange (CADIVI), concerns of a potential 2007 devaluation, seasonal pressures, and general economic and political uncertainty as elections approach.
END SUMMARY.

[1](#)2. (U) The spike in the parallel exchange rate for dollar-denominated bonds follows the USD 1 billion bi-national Bonos del Sur issuance earlier this week (reftel A). The issuance was oversubscribed by as much as 12 times. The Bonos del Sur issuance precipitated the spike in the parallel rate as many companies and individuals had been postponing foreign currency transactions to wait for the Bono del Sur and when their requests for bonds were not fulfilled, they had to rush to get dollars by other means. (Note: According to one source, a request for a USD 5 million allocation resulted in an actual allocation of USD 27,000. End Note.) The bond issuance also raised trader interest in dollars and led to speculation as people bid up the rate, hoping to get bonds and then to be able to sell them for a higher price.

[1](#)3. (U) The most-often quoted parallel rate is the cost of converting American Depository Shares of the local telecommunications monopoly (CANTV) to shares on the New York Stock Exchange (see reftel B), which as of November 15 was hovering around 3100Bs./USD (or 44 percent above the official rate of 2150Bs./USD). This rate has steadily increased over the past few months. While CADIVI has increased approvals for foreign exchange in recent weeks from an average of USD 90 million/day to USD 112 million/day, it appears that even this amount does not meet demand. (Note: Consumer demand has been at historical highs throughout 2006 and will only

increase in the run-up to Christmas. End Note.) In addition, CADIVI does not approve requests for individuals (except for USD 4,000 in credit card purchases while traveling) or for certain products and types of transactions.

Some companies that have experienced delays in receiving approvals (for example due to problems with the tax authority or with completing their labor certification) also use the parallel market as an assured means for obtaining dollars, albeit at a much higher Bolivar to dollar rate.

¶4. (SBU) The increase in the parallel rate presages continued problems for private industry and the Venezuelan economy. The increase in the parallel rate (both the CANTV rate and the "permuta" bond rate) increases inflation as some importers price their goods based on this rate (rather than the official one) and the costs of doing business in Venezuela for companies that take advantage of parallel mechanisms goes up. By keeping imports artificially cheap, the official fixed, overvalued exchange rate encourages conspicuous consumption, further fueling inflation and causing shortages. The artificially cheap imports compete with domestically produced goods and undermines local production. (Note: One contact from Venezuela's industrial heartland, Valencia, noted that over 600 factories and producers have shut down in the region since Chavez took power. End Note.)

¶5. (SBU) While Chavez and other senior BRV officials are adamant that there will be no devaluation in 2007, the widening gap between official and parallel rates make the necessity of a devaluation harder to ignore. The last devaluation occurred in March of 2005, when the parallel rate was 40 percent higher than the official rate. The rate gap causes inflationary pressures, about which the BRV seems increasingly concerned and costs the BRV financially as they implicitly lose money for every dollar to Bolivar transaction (receiving 2150 Bs. for a dollar that is really worth 3000 or more). In addition the Central Bank is spending hundreds of millions to try and soak up excess liquidity caused by government spending and exchange controls. As spending continues to grow, there will be an added incentive to devalue in order to make the BRV's dollar revenues (primarily from oil) go further in the local economy.

¶6. (SBU) COMMENT: While the spike to 3400Bs./USD may be temporarily related to the Bonos del Sur, the trend line clearly shows an increasing overvaluation of the Bolivar. Based on the number of public comments by BRV officials recently about the parallel rate, it seems that the BRV is preoccupied by the increasing numbers, if not the underlying causes of liquidity, increasing demand, structural problems with CADIVI and fears of the future. This problem is also self-sustaining as the widening gap between the official and parallel rate makes people eager to get their money out more quickly, which in turn drives demand for dollars and raises the parallel rate. END COMMENT.
BROWNFIELD